



September 13, 2019

Ms. Kris Monteith  
Bureau Chief  
Wireline Competition Bureau  
Federal Communications Commission  
445 12<sup>th</sup> Street SW  
Washington, DC 20554

RE: Southwest Arkansas Telephone Cooperative, Inc. - SAC 401724

Request for Authority to Include in its Rate Base the Interstate Portion of the Prepaid  
Accumulated Postretirement Benefits Recorded in Account 1410, Other Noncurrent  
Assets

Dear Ms. Monteith:

Southwest Arkansas Telephone Cooperative, Inc. (SWAT), Study Area Code 401724, hereby requests that the Wireline Competition Bureau (WCB) grant SWAT the authority to include in its rate base the interstate portion of its prepaid accumulated postretirement benefits recorded in Account 1410, Other noncurrent assets, beginning with the date the prepayments were made.

### **Background**

SWAT is a rate-of-return incumbent local exchange carrier (ILEC), and it participates in the National Exchange Carrier Association (NECA) common line and traffic sensitive pools. SWAT serves approximately 4,087 lines of which 3,762 are in the state of Arkansas and 325 are in the state of Texas. As a NECA pool participant, SWAT is an issuing carrier for the NECA access tariff, NECA Tariff F.C.C. No. 5, and bills rates prescribed in that tariff.

SWAT engages Moss Adams LLP to assist in completing its annual cost separations studies used in reporting its interstate costs to NECA. These costs are included in the NECA pools. SWAT's rate base is a key factor in the determination of its revenue requirement for each of the NECA pools.

As a benefit to its employees, SWAT offers certain postretirement benefits (OPEBs). This benefit is pre-funded by SWAT through a pre-funding trust sponsored by NTCA – the Rural

Broadband Association. SWAT's financial statements reflect an OPEB-related prepaid balance includable in Account 1410 of \$2,869,512 as of 12/31/18.

Section 65.820(c) of the FCC's rules allows inclusion of amounts in Account 1410 in the rate base, "only to the extent that they have been specifically approved by this Commission for inclusion."<sup>1</sup> In its 1997 Part 65 OPEB Treatment Order, the Commission established that where a carrier "can show that any of its assets recorded in Account 1410 (including prepaid OPEB) meet the used-and-useful standard, we will allow that asset to be included in the interstate rate base."<sup>2</sup>

The FCC has previously approved requests from a number of rate-of-return ILECs for authority to include in their rate bases the interstate portion of OPEBs recorded in Account 1410.<sup>3</sup> In each case, the Commission found that the prepaid OPEB costs recorded in Account 1410 met the used-and-useful standard.

### **Request**

In accordance with Section 65.820(c) of the FCC's rules, SWAT requests approval to include the interstate portion of its prepaid Accumulated Postretirement Benefit Obligation (APBO) in its rate base. For the 2019 cost separations study, the addition to the average rate base would be approximately \$2,777,400. The estimated interstate access portion of this addition to the 2019 cost study year rate base would be \$1,194,293, and the estimated interstate return on the interstate portion of the prepaid APBO would be \$123,908 at the current 10.375 percent interstate rate of return. While the size of the increased settlement is significant to SWAT, any impact on the overall NECA pool revenue requirements and the Universal Service Fund should be *de minimis*.

SWAT's accumulated prepaid amounts associated with OPEB are maintained in a trust with NTCA. The amounts earn interest and serve to reduce the future expenses associated with OPEB obligations, thus benefiting ratepayers. Attached is a letter from NTCA confirming the reduction

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<sup>1</sup> 47 C.F.R. §65.820(c).

<sup>2</sup> *Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base*, CC Docket No. 96-22, AAD 92-65, Report and Order, 12 FCC Red 2321, para. 12 (1997) (Part 65 OPEB Treatment Order).

<sup>3</sup> *Roosevelt County Rural Telephone Cooperative, Inc., Petition to Include the Interstate Portion of a Prepaid Accumulated Post-Retirement Benefit Obligation, Recorded in Account 1410, in the Rate Base*, WCB/Pricing 05-31, Order, 21 FCC Red 2880 (2006); *Duo County Telephone Cooperative, Inc., Request to Include in its Rate Base the Interstate Portion of the Prepaid Post-Employment Health Benefits Recorded in Account 1410, Other Noncurrent Assets, et al.* WC Docket No. 06-183 *et al.*, Memorandum Opinion and Order, 23 FCC Red 1267 (2008); *Central Arkansas Telephone Cooperative, Inc., Request for Authority to Include in its Rate Base the Interstate Portion of the Prepaid Accumulated Postretirement Benefits Recorded in Account 1410, Other Noncurrent Assets*, WC Docket No. 14-3, WCB/Pricing No. 13-2, Memorandum Opinion and Order, 29 FCC Red 2085 (2014).

in expenses. Therefore, SWAT's prepaid OPEB costs meet the Commission's used-and-useful standard.

Based on meeting the used-and-useful standard for its prepaid OPEB costs, and consistent with prior FCC orders granting similar requests, SWAT requests that the WCB grant it authority to include in its rate base the interstate portion of the prepaid OPEB amounts recordable in Account 1410, beginning with the date the prepayments were made.

Please direct any questions in regard to this request to:

Sharon Minor  
Director, Communications and Media Practice  
Moss Adams LLP  
14555 Dallas Parkway, Suite 300  
Dallas, TX 75254  
(214) 242-7446  
[Sharon.Minor@mossadams.com](mailto:Sharon.Minor@mossadams.com)

Sincerely,

A handwritten signature in cursive script, appearing to read "Tina Moore".

Tina Moore  
Compliance Officer  
Southwest Arkansas Telephone Cooperative, Inc.

Attachment

cc: Gil Strobel, Division Chief, Pricing Policy Division  
John Hunter, Chief Policy Counsel, Pricing Policy Division



August 7, 2019

## Memorandum

TO: Sandy Benton, Southwest Arkansas Telephone

FROM: Lisa Olson, Savings Plan Technician

SUBJECT: Southwest Arkansas Telephone

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On August 7, we discussed the FAS 106 liability and how that liability is impacted by the FAS 106 Prefunding in which Southwest Arkansas Telephone participates. This prefunding does play a partial role in lessening the overall FAS 106 liability of the company. This reduction of the liability manifests itself in several ways:

1. The Expected Rate of Return on Assets (determined by Wilshire Associates. the FAS 106 Program) is historically set as to what the return would be over a 30-year period depending on the investment philosophy of the prefunding Trusts. The FAS 106 statement requires that we use the Expected Return on Assets when performing the FAS calculation. This Expected Return on Assets is included in the Net Periodic Postretirement Benefit Cost section of the FAS 106 valuation and in this calculation the expected return reduces the liability which in return reduces the annual expense for that particular year.
2. The Total Assets on deposit as of the first day of the year are also included in the calculation process. The Assets reduce the Accumulated Postretirement Benefit Obligation (APBO) creating the Unfunded APBO figure. This Unfunded APBO has several areas of impact, including interest calculations, the Accrued/Prepaid figure and the Net Loss/Gain Calculations.

3. The prefunding account also has a direct impact on the Financial Statements of the company. As the Assets on deposit accrue earning (either negative or positive), the company would have this asset to offset the liability that would be accruing on the financial statements.

These are a few of the advantages of FAS 106 Prefunding and how they impact the FAS 106 liability being reflected on the financial statements. If you have further questions, do not hesitate to contact me by phone at (828) 255-2972 or by e-mail at [lolson@ntca.org](mailto:lolson@ntca.org).

LBO